

Message Text

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LIMITED OFFICIAL USE SECTION 1 OF 2 BELGRADE 3081

EO 11652: NA

TAGS: ECON EGEN YO

SUBJ: THE YUGOSLAV ECONOMY AFTER THREE MONTHS

REF: (A) BELGRADE 1772; (B) BELGRADE A-66

SUMMARY: BEGINNING IN THE LAST MONTHS OF 1976, THE YUGOSLAV ECONOMY SHIFTED TO A GREATER EMPHASIS ON GROWTH. THIS TENDENCY, WHICH WAS PARTIALLY MASKED BY TOTAL 1976 FIGURES, HAS ACCELERATED IN THE FIRST QUARTER OF 1977. INDUSTRIAL PRODUCTION HAS INCREASED BY 9.9 PERCENT, PAYMENTS FOR INVESTMENT IN REAL TERMS ARE UP 9 PERCENT, IMPORTS ARE UP 32 PERCENT AND THE TRADE DEFICIT FOR THE FIRST THREE MONTHS AMOUNTED TO 939 MILLION DOLLARS, UP 340 MILLION DOLLARS FROM THE FIRST QUARTER OF 1976. THE COST OF LIVING IS UP 6.5 PERCENT IN THE FIRST FOUR MONTHS AND PRESSURE FOR MORE PRICE ADJUSTMENTS REMAINS STRONG. THE GOVT NOW FACES THE DIFFICULT TASK OF MODERATING THESE TRENDS WHILE MAINTAINING A REASONABLY HIGH LEVEL OF INDUSTRIAL GROWTH.

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END SUMMARY.

1. INDUSTRIAL PRODUCTION: THE REVIVAL OF INDUSTRIAL PRODUCTION WHICH BEGAN IN THE LAST HALF OF 1976 HAS ACCELERATED IN THE FIRST QUARTER OF 1977. THE RATE OF GROWTH OF INDUSTRIAL PRODUCTION IN THESE THREE MONTHS IS 9.9 PERCENT OVER THE SAME PERIOD LAST YEAR AND 6.5

PERCENT OVER THE 1976 AVERAGE RATE OF PRODUCTION. OF THE 35 BRANCHES OF THE ECONOMY, ONLY SHIPBUILDING, PROCESSED NON-METALS, AND LEATHER GOODS SHOWED SMALL PRODUCTION DECREASES DURING THE THREE MONTHS. THE PRODUCTION OF WOOD PRODUCTS (UP 29 PERCENT), ELECTRICAL ENERGY (UP 21 PERCENT), AND BEVERAGES (UP 22 PERCENT) WERE SECTORS WITH THE LARGEST INCREASES. THE STIMULUS FOR THIS INDUSTRIAL REVIVAL HAS BEEN INCREASING CONSUMER DEMAND, WHICH IN TURN WAS BASED ON THE INCREASED AVAILABILITY OF CONSUMER CREDIT AND THE INCREASE IN THE LATTER HALF OF 1976 IN REAL WAGES. THE RELAXATION OF IMPORT RESTRICTIONS ALSO PLAYS A ROLE IN THE INCREASE. STOCKS OF FINISHED GOODS, WHILE NOT DROPPING DRAMATICALLY, HAVE DECREASED FROM THE HIGH LEVELS OF LAST SUMMER.

2. FOREIGN TRADE: EXPORTS INCREASED BY 18 PERCENT TO 1.27 BILLION DOLLARS AND IMPORTS BY 32 PERCENT TO 2.21 BILLION DOLLARS IN THE FIRST QUARTER OF 1977 OVER THE SAME PERIOD LAST YEAR. THE TRADE DEFICIT FOR THE FIRST QUARTER WAS 940 MILLION DOLLARS, A 57 PERCENT INCREASE OR 340 MILLION DOLLARS MORE THAN THE TRADE DEFICIT IN THE FIRST QUARTER OF 1976. NATIONAL BANK OFFICIALS ATTRIBUTE A LARGE PART OF THIS INCREASED TRADE DEFICIT TO ONE-TIME INCREASES OF PURCHASES IN THE AGRO-INDUSTRIAL SECTOR. IN THE FIRST THREE MONTHS OF THIS YEAR, IMPORTS IN THEAT SECTOR ROSE BY 90 PERCENT TO 355 MILLION DOLLARS AND EXPORTS FELL BY 16 PERCENT TO 124 MILLION DOLLARS. THE RESULTING DEFICIT OF 231 MILLION DOLLARS WAS ALMOST 200 MILLION DOLLARS GREATER THAN IN 1976. THE DECREASE IN AGRICULTURAL EXPORTS LIMITED OFFICIAL USE

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WAS BLAMED ON THE HIGH PRICES OF DOMESTIC CORN AND MEAT IN COMPARISON TO THE REST OF EUROPE. THE HIGH AGRICULTURAL IMPORT COSTS WERE PRIMARILY FOR INCREASED PURCHASES OF ANIMAL FODDER AND COFFEE. THE RISE IN FIRST QUARTER EXPORTS WAS PARTICULARLY HIGH IN SHIPBUILDING, MACHINE-BUILDING AND WOOD PRODUCTS. IMPORT INCREASES DURING THE QUARTER WERE HIGHEST IN CONSUMER GOODS AND SEMI-FINISHED MATERIALS.

3. EXPORTS TO THE U.S. DECLINED BY 13 PERCENT TO 76.9 MILLION DOLLARS AND IMPORTS INCREASED BY 37 PERCENT TO 121.9 MILLION DOLLARS IN THE FIRST QUARTER. THE YUGOSLAVS ARE CONCERNED ABOUT THE EXPORT DECREASE TO THE U.S. AND HAVE DISCUSSED STEPS TO REMEDY IT. THEY ATTRIBUTE IT TO INCREASED COMPETITION FOR THE MARKET BY DOMESTIC AND INTERNATIONAL MANUFACTURERS, AS WELL AS THE REMOVAL OF GSP TREATMENT FOR CERTAIN COPPER PRODUCTS. THE INCREASE IN U.S. EXPORTS WAS DUE TO DELIVERIES FOR THE CHEMICAL INDUSTRY AND FOR EARTHMOVING EQUIPMENT. EXPORTS TO THE EEC COUNTRIES ROSE 39 PERCENT AND IMPORTS FROM THEM BY

28 PERCENT, RESULTING IN A 23 MILLION DOLLAR INCREASE IN YUGOSLAVIA'S FIRST QUARTER TRADE DEFICIT WITH THE EEC TO A 1977 TOTAL OF 395 MILLION DOLLARS. EXPORTS TO THE COMECON COUNTRIES, INCLUDING USSR, WERE DOWN 14 PERCENT WHILE IMPORTS INCREASED BY 26 PERCENT IN THE FIRST QUARTER. ACCORDING TO AN OFFICIAL IN FOREIGN AFFAIRS MINISTRY, THE EXPORT DECREASE WAS DUE TO A DELIBERATE SOVIET SLOWDOWN OF IMPORTS FROM YUGOSLAVIA IN ORDER TO ELIMINATE THE 130 MILLION DOLLAR SURPLUS IN THEIR CLEARING ACCOUNT WHICH YUGOSLAVIA HAD ACCUMULATED IN 1976. BILATERAL TRADE STATISTICS FOR YUGOSLAVIA AND THE SOVIET UNION ARE ONLY AVAILABLE FOR TWO MONTHS OF 1977. FOR THIS PERIOD EXPORTS TO THE USSR DECLINED BY 37 PERCENT TO 130 MILLION DOLLARS WHILE IMPORTS TO YUGOSLAVIA INCREASED BY 10 PERCENT TO 160 MILLION DOLLARS.

4. PRICES: PRICES, PARTICULARLY AT THE RETAIL LEVEL, LIMITED OFFICIAL USE

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CONTINUED TO RISE AT THE ACCELERATED RATE BEGUN IN NOVEMBER OF LAST YEAR. SIZEABLE INCREASES IN THE PRICE OF AGRICULTURAL PRODUCTS (INCLUDING MILK, MEAT AND COFFEE), PETROLEUM PRODUCTS INCLUDING GASOLINE, TRANSPORTATION, AND CHANGES IN THE TURNOVER TAX HAVE LED TO AN INCREASE IN THE COST OF LIVING

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IN THE FIRST FOUR MONTHS OF 1977 OF 6.5 PERCENT. RETAIL PRICES HAVE INCREASED BY 5.9 PERCENT AND PRODUCERS' PRICES BY 4.0 PERCENT IN THE FIRST FOUR MONTHS. THESE INCREASES REFLECT THE CONTINUING PRESSURE ON PRICES DISCUSSED IN REFTTEL A. ACCORDING TO THE APRIL 25 EDITION OF "POLITIKA", A TOTAL OF 189 ADDITIONAL REQUESTS FOR PRICE INCREASES ARE NOW IN THE HANDS OF THE FEDERAL EXECUTIVE INSTITUTE FOR MARKETS AND PRICES. THESE INCLUDE REQUESTS FOR INCREASES IN THE PRICE OF TEXTILES (13 PERCENT), AUTOMOBILES (15 PERCENT), TRACTORS (15 PERCENT), FURNITURE (6 PERCENT), PAPER (13 PERCENT), CEMENT (9 PERCENT), AND BEER (16 PERCENT).

5. INVESTMENT: REAL INVESTMENT INCREASED BY ONLY 2 1/2 PERCENT IN 1976, DUE TO THE NEWLY-INSTITUTED ACCOUNTING AND PAYMENTS LAWS, PROBLEMS IN THE PLANNING PROCESS, AND THE FIRST-HALF STAGNATION IN INDUSTRIAL PRODUCTION. THERE ARE NOW INDICATIONS THAT THESE PROBLEMS ARE BEING RESOLVED AND THAT INVESTMENT WILL SHOW SIGNIFICANT GROWTH IN 1977. TOTAL PAYMENTS FOR INVESTMENT WERE UP 19 PERCENT OVER THE FIRST LIMITED OFFICIAL USE

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QUARTER OF 1976 IN NOMINAL TERMS AND ABOUT 9 PERCENT IN REAL TERMS. HOUSING CONSTRUCTION INVESTMENT INCREASED BY 36 PERCENT OVER THE FIRST QUARTER OF 1976. ENTERPRISES ARE NOW MORE COMFORTABLE WITH THE ACCOUNTING AND PAYMENTS LAWS AND STEPS ARE BEING TAKEN TO ESTABLISH A DISCOUNT MARKET FOR DRAFTS ISSUED UNDER THE PAYMENTS LAW. THIS WILL FREE ENTERPRISE FUNDS FOR INVESTMENT. MANY SOCIAL ACCORDS IN PRIORITY SECTORS UNDER THE 1976-1980 DEVELOPMENT PLAN HAVE ALSO BEEN SIGNED (ENERGY AND FERROUS METALLURGY ARE THE MAJOR EXCEPTIONS) AND POSITIVE STEPS REPORTEDLY HAVE BEEN TAKEN IN AT LEAST SOME OF THESE AREAS REGARDING INVESTMENT. ONE DISQUIETING NOTE IS THE LARGE INCREASES IN ENTERPRISE LOSSES IN 1976, WHICH WERE 2 1/2 TIMES AS HIGH AS IN 1975. THESE LOSSES, PARTLY DUE TO HIGHER-THAN-JUSTIFIED WAGE INCREASES AND INCREASED MANDATORY CONTRIBUTIONS TO SOCIO-POLITICAL ORGANS, HAVE REDUCED THE RESOURCES OF ENTERPRISES AVAILABLE FOR INVESTMENT AND CONSEQUENTLY INCREASED THEIR DEPENDENCE ON THE COMMERCIAL BANKING SYSTEM.

6. TOURISM: WHILE IT IS STILL TOO EARLY TO PREDICT THE RESULTS OF THE 1977 YUGOSLAV TOURIST SEASON, EARLY INDICATIONS ARE NOT FAVORABLE. ADVANCE BOOKINGS MADE BY TRAVEL AGENCIES AND GROUPS ARE DOWN AROUND 15 PERCENT FROM LAST YEAR WHILE EUROPE AS A WHOLE HAS SHOWN A 5 PERCENT RISE IN BOOKINGS. VOJISLAV DJURANOVIC, SECRETARY GENERAL OF THE TOURIST

ASSOCIATION OF YUGOSLAVIA, REFLECTED THE MOOD PREVAILING IN YUGOSLAV TOURIST CIRCLES WHEN HE SAID THAT HE "HOPED" FOREIGN TOURIST NIGHTS WOULD EQUAL LAST YEAR'S LEVEL. AS REFTEL B POINTS OUT, 1976 WAS A DISAPPOINTING YEAR FOR THE YUGOSLAVS, AS THE NUMBER OF FOREIGN TOURIST NIGHTS DECREASED BY 7 PERCENT. THE ONE FACTOR WHICH MAY SAVE THE YUGOSLAVS IS THAT WHILE THE PRICES OF SERVICES HAVE RISEN ABOUT 10 PERCENT SINCE LAST YEAR, THE BASIC COST OF HOTEL ROOMS HAS STAYED ABOUT THE SAME. GIVEN THE INCREASED INTEREST IN EUROPEAN TOURISM, AS SHOWN BY THE 5 PERCENT INCREASE IN BOOKINGS, INDIVIDUAL TRAVELERS IN THE FACE OF PRICE INCREASES LIMITED OFFICIAL USE

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ELSEWHERE MAY OPT FOR YUGOSLAVIA.

7. INVISIBLE EARNINGS: BEGINNING WITH 1976 YEAR-END FIGURES, THE YUGOSLAVS HAVE BEEN UNUSUALLY SLOW TO RELEASE ANY CURRENT ACCOUNT INFORMATION. THE 1976 TOTALS REPORTED BY THE EMBASSY, WERE BASED ON CONVERSATIONS WITH THE NATIONAL BANK AND NOT ON PUBLISHED DATA. NO 1977 FIGURES HAVE BEEN RELEASED AT ALL. IT IS LIKELY, HOWEVER, THAT INVISIBLE EARNINGS WILL NOT INCREASE SIGNIFICANTLY IN 1977 AND COULD EVEN DECREASE SLIGHTLY. AS PARAGRAPH 6 POINTS OUT, EARNINGS FROM FOREIGN TOURISM COULD WELL SHOW ONLY A SLIGHT INCREASE. THE YUGOSLAVS THEMSELVES ARE PESSIMISTIC (PERHAPS MORE THAN IS JUSTIFIED) REGARDING GUEST WORKER REMITTANCES, EXPECTING THEM TO SHOW A 1 OR 2 PERCENT DECREASE OVER 1976 TOTALS. INVISIBLE OUTFLOWS, AS BELGRADE A-66 POINTS OUT, HAVE BEEN INCREASING STEADILY AND THIS TREND SHOULD CONTINUE.

8. COMMENT: NATIONAL BANK OFFICIALS HAVE DESCRIBED THE HIGH RATE OF INCREASE OF IMPORTS AND PRICES AS "ONE-TIME ADJUSTMENTS" WHICH WERE NEEDED AFTER MORE THAN A YEAR OF TIGHTENED CONTROLS. IT IS DOUBTFUL, HOWEVER, THAT THIS ADJUSTMENT PROCESS IS COMPLETE. WHILE A MODERATION OF THE CURRENT GROWTH/INFLATIONARY TREND IS LIKELY IN THE COMING MONTHS, SEVERAL OF THE GOALS SET FOR 1977 NOW APPEAR MUCH MORE DIFFICULT TO ACHIEVE. THE LIMITATION OF THE COST OF LIVING INCREASE TO 12 PERCENT IS UNLIKELY TO BE FULFILLED, AS IS THE GOAL OF A MAXIMUM INCREASE OF 8 PERCENT IN IMPORTS. THE NATIONAL BANK ESTIMATION OF A CURRENT ACCOUNT DEFICIT OF 300-500 MILLION DOLLARS NOW APPEARS TO BE ON THE LOW SIDE WITH A DEFICIT OF 600-800 MILLION DOLLARS MORE PROBABLE. ON THE OTHER HAND, SATISFACTORY INCREASES IN PRODUCTIVITY, INVESTMENT, AND EMPLOYMENT ARE LIKELY AND IN INCREASE IN INDUSTRIAL PRODUCTION OF 6-8 PERCENT PROBABLE. YORK

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Message Attributes

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